

Version Herr Wu 20.9.01

# **Contract for**

## **Chinese-foreign Equity**

### **Joint Ventures**



## Chapter 1 General Provisions

In accordance with the "Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures" and other relevant Chinese laws and regulations, *BeStar Electronics Industry Co., Ltd Company* and *Digisound - Electronic GmbH Norderstedt* and *Orient - American Trade Co.*, adhering to the principle of equality and mutual benefit and through friendly consultations, agree to jointly invest to set up a joint venture enterprise in *Changzhou* of the People's Republic of China. The Contract is worked out hereunder.

## Chapter 2 Parties to the Joint Venture

### Article 1

Parties to this Contract are as follows: *BeStar Electronics Industry Co., Ltd Company* (hereinafter referred to as Party A), registered with \_\_\_\_\_ in China, and its legal address is at *Tianan Industry Park 4/F B Side (street)\_High and New Technology Development Zone (district) Changzhou (city) China.*

Legal representative:

Name: Mrs Xie MeiFang  
Position: President  
Nationality: Chinese

*Digisound - Electronic GmbH Norderstedt* (hereinafter referred to as Party B) registered with *No (HRB) 1273 /Amtsgericht Nordersted.* Its legal address at *Oststr.54 22844 Nordersted.Germany*

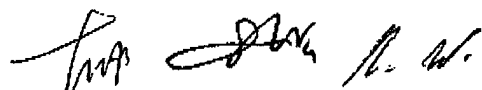
Legal representative:

Name: Rudolf Weiler  
Position: General Manager  
Nationality: German

*Orient - American Trade Co.* (hereinafter referred to as Party C) registered with *No \_\_\_\_\_* Its legal address at *Room 308 &310,Raleigh Centre ,9 Yin CheongStreet,On Lok Tsuen Fanling ,N.T.Hongkong*

Legal representative:

Name: Mr.Lo Eaniel  
Position: General Manager  
Nationality: Chinese



### **Chapter 3 Establishment of the Joint Venture Company**

#### **Article 2**

In accordance with the "Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures" and other relevant Chinese laws and regulations, both parties to the joint venture agree to set up a joint venture limited liability company (hereafter referred to as the joint venture company).

#### **Article 3**

The name of the joint venture company is:

The name in foreign language is

**Changzhou BeStar Acoustic Co., Ltd.**

The legal address of the joint venture company is at Tianan Industry Park, 4/F B Site (street) High and New Technology Development Zone (district) Changzhou (city) Jiangsu (Province) China.

#### **Article 4**

All activities of the joint venture company shall be governed by the laws and decrees and pertinent rules and regulations of the People's Republic of China.

#### **Article 5**

The organization form of the joint venture company is a limited liability company. Each party to the joint venture company is liable to the joint venture company within the limit of the capital subscribed by it. The profits, risks and loss of the joint venture company shall be shared by the parties in proportion to their contributions of the registered capital.

### **Chapter 4 The Purpose, Scope and Scale of Production and Business**



#### Article 6

The purpose of the parties to the joint venture company is in conformity with the wish of enhancing economic co-operation and technical exchanges, to improve the product quality, develop new products and gain competitive position in the world market in quality and price by adopting advanced and appropriate technology and scientific management method, so as to raise economic results and ensure satisfactory economic benefits for each investor.

#### Article 7

The productive and business scope of the joint venture company is to manage and produce:

*All kinds of acoustic and electronic components especially for automotive and telecommunication application, In addition acoustic and electronic equipments in connection with alarms ,telephones and other units for all kinds of application ,this includes complete modules and security devices,*

provide maintenance service after the sale of the products; study and develop new products.

#### Article 8

The production scale of the joint venture company is as follows:

1. The production capacity after the joint venture is put into operation is according to the attached Business Plan .
2. The production scale may be increased in accordance with the international market requirement

### Chapter 5 Total Amount of Investment and Registered Capital

#### Article 9

The total amount of investment of the joint venture company is :

Us\$ 300,000.00

The registered capital is :

Us\$ 250,000.00

#### Article 10

Investment contributed by the parties is Us\$ 250,000.00,- which will be the registered capital of the joint venture company.

Of which: Party A shall pay Us\$ 127,500,- accounting for 51%

; Party B shall pay Us\$ 100,000.00,- accounting for 40%

Party C shall pay Us\$ 22,500.00,- accounting for 9%

#### Article 11

Party A , Party B and Party C will contribute the following as their investment:

Party A: Machines and equipment US\$ 127.500,-(List as annex)

Party B: Cash US\$ 100.000,-

Party C: Cash US\$ 22.500,-

#### Article 12

The registered capital of the joint venture company shall be paid in one installment by Party A , Party B and Party C according to their respective proportion of their investment.

The installment shall be as follows:

Payment of Party B and C within 14 days after issuing of the joint venture license.

Transfer of machines and equipment of Party A immediately on date of issuing of the joint venture license.

#### Article 13

In case any party to the joint venture company intends to assign all or part of his investment subscribed to a third party, consent shall be obtained from the other party to the joint venture company, and approval from the examination and approval authority is required.

When one party to the joint venture company assigns all or part of his investment, the other party has preemptive right.

### Chapter 6 Responsibilities of Each Party to the Joint Venture

#### Article 14

Party A and Party B shall be respectively responsible for the following matters:

Responsibilities of Party A:

- Handling of applications for approval, registration, business license and other matters concerning the establishment of the joint venture company from relevant departments in charge of China;
- Processing for applying the right to the use of a site to the authority in charge of the land;
- Organizing the design and construction of the premises and other



- engineering facilities of the joint venture company;
- Providing machinery and equipment and premises ... in accordance with the provisions of Article 10 and 11;
  - Assisting the joint venture company company in purchasing or leasing equipment, materials, raw materials, articles for office use, means of transportation and communication facilities etc.;
  - Assisting the joint venture company in contacting and setting the fundamental facilities such as water, electricity, transportation, etc.;
  - Assisting the joint venture company in recruiting Chinese management personnel, technical personnel, workers and other personnel needed;
  - Assisting foreign workers and staff in applying for the entry visa, work license and processing their traveling matters;
  - Providing daily convenience to foreign workers from Party B;
  - Responsible for handling other matters entrusted by the joint venture company.
  - Providing orders from the local market for the joint venture company.

**Responsibilities of Party B:**

- Providing investment in accordance with the stipulations in Article 10 and 11, and responsible for shipping capital goods such as machinery and equipment, etc. contributed as investment to a Chinese port;
- Handling the matters entrusted by the joint venture company, such as selecting and purchasing machinery and equipment outside China, etc.;
- Providing necessary technical personnel for installing, testing and trial production of the equipment, as well as the technical personnel for production and inspecting;
- Training the technical personnel and workers of the joint venture company;
- In case Party B is the licensor, it shall be responsible for the stable production of qualified products of the joint venture company in the light of design capacity within the specified period;
- Responsible for other matters entrusted by joint venture company.
- As Digisound-Electronic GmbH is the leading supplier of acoustic components in the automobile market it has developed special technology in the application of these components in the field of alarm indicators and alerts, which Party B will transfer to the joint venture company.
- Providing orders from the international market for the joint venture company.
- Responsible for all marketing activities in the international market places.



**Responsibilities of Party C:**

- Providing investment in accordance with the stipulations in Article 10 and 11, and responsible for shipping capital goods such as machinery and equipment, etc. contributed as investment to a Chinese port;
- Handling the matters entrusted by the joint venture company, such as selecting and purchasing machinery and equipment outside China, etc.
- In case Party C is the Licensor, it shall be responsible for the stable production of qualified products of the joint venture company in the light of design capacity within the specified period;
- Responsible for other matters entrusted by joint venture company.
- Providing orders from the international market for the joint venture company.

**Chapter 7 Selling of Products**

**Article 20**

The products of joint venture company will be sold both in Chinese market and in overseas market, the export part accounts:

(according to the feasibility study/ Business Plan attached)

2001-2003 90% for export+10% domestic market

**Article 24**

The trade mark of the joint venture company's products should be registered to relevant departments. The trade mark of the joint venture's product is "BeStar"

**Chapter 9 The Board of Directors**

**Article 25**

The date of registration of the joint venture company shall be the date of the establishment of the board of directors of the joint venture company.

**Article 26**

The board of directors are composed of 6 directors, of which 3 shall be appointed by



Party A ( Mr.Wu YiFei ;Cha HongHong; GuoMing)  
2 by Party B ( Mr.Rudolf Weiler ; Mr.Forian J.Greiling )  
1 by Party C. ( Mr.Hu,XiaoYong )

The chairman of the board shall be appointed by Party A, and its vice-chairman by Party B. The term of office for the directors and chairman is four years, their term of office may be renewed if continuously appointed by the relevant party.

#### Article 27

The highest authority of the joint venture company shall be its board of directors. It shall decide all major issues concerning the joint venture company., *the Rules of the Board of Directors are stipulated separately in Annex to the Article of association*

#### Article 28

The chairman of the board is the legal representative of the joint venture company. Should the chairman be unable exercise his responsibilities for any reason, he shall authorize the vice-chairman or any other directors to represent th joint venture company temporarily.

#### Article 29

The board of directors shall convene at least on meeting every year. The meeting shall be called and presided over by the chairman of the board. The chairman may convene an interim meeting based on a proposal made by more than one third of the total number of directors. Minutes of the meetings shall be placed on file.

### Chapter 10 Business Management Office

#### Article 30

The joint venture company shall establish a management office which shall be responsible for its daily management. The management office shall have a general manager, ,deputy general managers, Appointed by board of direct

The general manager and deputy general managers whose terms of office is 4 years shall be appointed by the board of directors.

Term of office is 4 years. They may be renewable for consecutive terms upon the agreement of the board of directors.

#### Article 31

The responsibility of the general manager is to carry out the decisions of the





board meeting and organize and conduct the daily management of the joint venture company. The deputy general managers shall assist the general manager in his work.

Several department managers may be appointed by the management office, they shall be responsible for the works in various department respectively, handle the matters handed over by the general manager and deputy general managers and shall be responsible to them.

The authority and duty of general and vice-general managers, general accountant and other managers will be declared in the Article of the joint venture company.

#### **Article 32**

In case of graft or serious dereliction of duty on the part of the general manager and deputy general managers, the board of directors shall have the power dismiss them at any time.

### **Chapter 11 Purchase of Equipment**

#### **Article 33**

In its purchase of required raw materials, flue, parts, means of transportation and articles for office use, etc., the joint venture company shall give first priority to purchase in China when conditions are the same.

#### **Article 34**

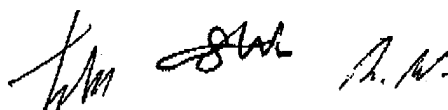
In case the joint venture company entrusts Party B to purchase equipment on the overseas market, persons appointed by the Party A shall be invited to take part in the purchasing.

### **Chapter 13 Labor Management**

#### **Article 40**

Labor contract covering the recruitment, employment, dismissal and resignation, wages, labor insurance, welfare, rewards, penalty and other matters concerning the staff and workers of the joint venture company shall be drawn up between the joint venture company and the Trade Union of the joint venture company as a whole or individual employees in accordance with the "Regulations of the People's Republic of China on Labor Management in Chinese-foreign Equity Joint Ventures and its Implementation Rules".

The labor contracts shall, after being signed, be filed with the local labor



management department.

**Article 41**

The appointment of high-ranking administrative personnel recommended by both parties, their salaries, social insurance, welfare and the standard of traveling expenses, etc. shall be decided by the meeting of the board of directors.

**Chapter 14 Taxes, Finance and Audit**

**Article 42**

The joint venture company and its staff members and works should pay taxes in accordance with the stipulations of Chinese laws and other relative regulations.

**Article 43**

Staff members and workers of the joint venture company shall pay individual income tax according to the Individual Income Tax Law of the People's Republic of China.

**Article 44**

Allocations for reserve funds, expansion funds of the joint venture company and welfare funds and bonuses for staff and workers shall be set aside in accordance with the stipulations in the "Law of the People's Republic of China on Chinese-foreign Equity Joint Venture", the annual proportion of allocations shall be decided by the joint venture company board of directors according to the business situations of the joint venture company company.

**Article 45**

The fiscal year of the joint venture company shall be from January 1 to December 31. All vouchers, receipts, statistic statements and reports, account books shall be written in Chinese.

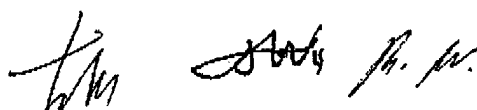
**Article 46**

Financial checking and examination of the joint venture company shall be conducted by an auditor registered in China and reports shall be submitted to the board of directors and the general manager.

In case Party B considers it necessary to employ an international auditing company the Rules of the Board of Directors will apply.

**Article 47**

In the first three months of each fiscal year, the manager shall prepare previous year's balance sheet, profit and loss statement and proposal regarding the disposal of

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profits, and submit them to the board of directors for examination and approval.

*Foreign currency of the joint venture company will be handled in accordance with "The regulations of the People's Republic of China on administration of foreign currency."*

## **Chapter 15 Duration of the Joint Venture**

### **Article 48**

The maximum duration of the joint venture company is 49 years.  
After 11 years each party can give 36 months's notice, to the fiscal year-end .  
The establishment date of the joint venture company shall be the date on which the business license of the joint venture company is issued.

An application for the extension of the duration, proposed by one party and unanimously approved by the board of directors, shall be submitted to the Ministry of Foreign Trade and Economic Cooperation (or the examination and approval authority entrusted by it) six months prior to the expiry date of the joint venture.

## **Chapter 16 The Disposal of Assets after the Expiration of the Duration**

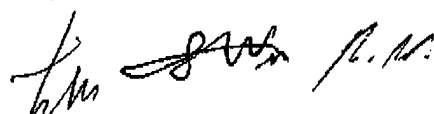
### **Article 49**

Upon the expiration of the duration of termination before the date of expiration of the joint venture company, liquidation shall carried out according to the relevant law. The liquidated assets shall be distributed in accordance with the proportion of investment contributed by Party A and Party B. and Party C

## **Chapter 17 Insurance**

### **Article 50**

Insurance policies of the joint venture company on various kinds of risks shall be underwritten with the Insurance Company of China . The type, value and duration of the insurance etc. shall be decided by the board of directors in accordance with the provisions of the Insurance Company of China.



## **Chapter 18 The Amendment, Alteration and Discharge of the Contract**

### **Article 51**

The amendment of the contract or other appendices shall come into force only after the written agreement signed by all parties and approved by the original examination and approval authority.

### **Article 52**

In case of liability to fulfill the contract or to continue operation due to heavy losses in successive years as a result of force major, the duration of the joint venture company and the contract shall be terminated before the time of expiration after being unanimously agreed upon by the board of directors and approved by the original examination and approval authority.

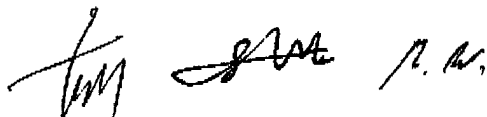
### **Article 53**

Should the joint venture company be unable to continue its operations or achieve the business purpose stipulated in the contract due to the fact that one of contracting parties fails to fulfill the obligations prescribed by the contract and articles of association, or seriously violate the stipulations of the contract and articles of association, that party shall be deemed as unilaterally terminates the contract. The other party shall have the right to terminate the contract in accordance with the provisions of the contract offer approved by the original examination and approved authority as well as to claim damages. In case all parties of the joint venture company agree to continue the operation, the party who fails to fulfill the obligations shall be liable to the economic losses caused thereby to the joint venture company company.

## **Chapter 19 Liabilities for Breach of Contract**

### **Article 54**

Should either Party A or Party B or Party C fail to pay on schedule the contributions in accordance with the provisions defined in chapter 5 of this contract, the breaching party shall pay to the other party 5% of the contribution starting from the first month after exceeding the time limit. Should the breaching party fail to pay after 3 months, 5% of the contribution shall be paid to the other party, who shall have the right to terminate the contract and to claim damages to the breaching party in accordance with the stipulations in Article 53 of this Contract.



**Article 55**

Should all or part of the contract and its appendices be unable to be fulfilled owing to the fault of one party, the breaching party shall bear the responsibilities thus caused. Should it be the fault of two or all parties, they shall bear their respective responsibilities according to actual situations.

**Article 56**

In order to guarantee the performance of the contract and its appendices, all Parties shall provide each other with bank guarantees for performance of the contract.

**Chapter 20 Force Major**

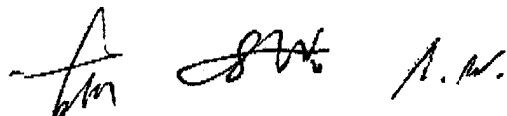
**Article 57**

Should either of the parties to the contract be prevented from executing the contract by force major, such as earthquake, typhoon, flood, fire and war and other unforeseen events, and their happening and consequences are unpreventable and unavoidable, the prevented party shall notify the other party by cable without any delay, and within 15 days thereafter provide the detailed information of the events and a valid document for evidence issued by the relevant public notary organization for explaining the reason of its inability to execute or delay the execution of all or part of the contract. Both parties shall, through consultations, decide whether to terminate the contract or to exempt the part of obligations for implementation of the contract or whether to delay the execution of the contract according to the effects of the events on the performance of the contract.

**Chapter 21 Applicable Law**

**Article 58**

The formation of this contract its validity, interpretation, execution and settlement of the disputes shall be governed by the related laws of the People's Republic of China.



## Chapter 22 Settlement of Disputes

### Article 59

Any disputes arising from the execution of, or in connection with the contract shall be settled through friendly consultations between both parties. In case no settlement can be reached through consultations, the disputes shall be submitted to

*China International Economic and Trade Arbitration Commission ( CIETAC),  
Shanghai Branch ,China*

in accordance with its rules of procedure. The arbitral award is final and binding upon both parties.

### Article 60

During the arbitration, the contract shall be executed continuously by both parties except for matters in disputes.

## Chapter 23 Language

### Article 61

The contract shall be written in Chinese and in English both version. Both languages are equally authentic. In the event of any discrepancy between the two aforementioned versions, the English version shall prevail.

## Chapter 24 Effectiveness of the Contract and Miscellaneous

### Article 62

The appendices drawn up in accordance with the principles of this contract are integral part of this contract, including:

- 1) : Article of Association appended by the Rules of the Board of Directors
- 2) : Agreement on Part A 's Equipment Contribution .

### Article 63

The contract and its appendices shall come into force commencing from the date of approval of the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China , Changzhou New District Administrative Committee.

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**Article 64**

Should notices in connection with any party's rights and obligations be sent by either Party A or Party B Party C by telegram, telex, etc., the written letter notices shall be also required afterwards. The legal addresses of Party A and Party B & Party C listed in this contract shall be the posting addresses.

**Article 65**

The contract is signed in Changzhou new District , China by the authorized representatives of both parties on 18 August 2001 .

For Party A: Mrs. Xie, Meifang by proxy Mr. Wu, Yi Fei

BeStar Electronics industry Co., Ltd Company

For Party B: Mr. R. Weiler and Mr. F. J. Greiling

Digisound Electronic GmbH

For Party C: Mr. Lo, Eaniel, by proxy Mr. Hu, Xiaoyong

Orient American Trade Co.

17. Governing Law. The parties hereto agree that this Agreement shall be construed and interpreted pursuant to the law of the state of Illinois.

18. Complete Agreement. This Agreement constitutes the exclusive agreement between the parties hereto relating to the subject matter hereof, there being no prior or contemporaneous agreement which modifies or alters it. No amendment of this Agreement shall be binding unless in writing and signed by the parties hereto.

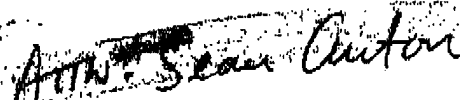
IN WITNESS WHEREOF, the undersigned parties have executed this Employment Agreement on the date hereof.

  
Rich de Yon

9/19/01

DIGISOUND, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

  
Adam Sean Carter



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IN WITNESS WHEREOF, the undersigned parties have executed this Employment Agreement on the date hereof.

Dirk de Young

DIGISOUND-WIE, INC.

By:

Florian Gröning

Title:

President